



COMPLIANCE AND CONTROL AUDIT REPORT

Soldiers' and Veterans' Homes

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
November 2002**

Legislative Post Audit Committee

Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (including the Chairman and Vice-

Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

Senator Lynn Jenkins, Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

Representative Lisa Benlon, Vice-Chair
Representative John Ballou
Representative James Garner
Representative Dean Newton
Representative Dan Thimesch

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Barbara J. Hinton, Legislative Post Auditor

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November 13, 2002

To: Members, Legislative Post Audit Committee

Senator Lynn Jenkins, Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

Representative Lisa Benlon, Vice-Chair
Representative John Ballou
Representative Jim Garner
Representative Dean Newton
Representative Dan Thimesch

This report contains the findings and recommendations from our completed compliance and control audit of the Soldiers' and Veterans' Homes.

The report includes two recommendations for the Soldiers' Home. We would be happy to discuss the recommendations or any other items in the report with any legislative committee, individual legislators, or other State officials.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Question 1: Have the Soldiers' and Veterans' Homes Collected and Deposited the Appropriate Amounts of Fees From Their Residents?

The Soldiers' and Veterans' Homes generally have established adequate financial-management practices to ensure that they collect and deposit the appropriate amounts of fees from their residents. page 3
The Homes charge a monthly fee to residents that varies with the type of care provided and the financial resources of the resident. During fiscal year 2002, the Soldiers' Home collected \$1.8 million in these fees, and the Veterans' Home collected \$2.1 million. We found that the Homes had reasonable practices in place to determine the appropriate amounts due, and to collect those amounts. We also tested a sample of resident fees to make sure that proper amounts were, in fact, collected and appropriately deposited.

Question 2: Have the Soldiers' and Veteran's Home Properly Handled Their Locally-Administered Moneys?

The Soldiers' and Veterans' Homes generally handled their locally-administered moneys appropriately and in accordance with applicable requirements, but some improvements are needed in procedures. page 4
The Homes administer certain moneys locally, instead of through the Division of Accounts and Reports. These include such moneys as trust funds and benefit funds. We reviewed the Homes' practices for administering these moneys to see if those practices provided adequate controls and adhered to applicable legal requirements. We also tested samples of transactions (receipts and payments) to see if they were properly handled.

Payments from locally-administered moneys were for appropriate purposes, except that we couldn't always be sure about purchases made by the Soldiers' Home for residents from their Trust Fund moneys. That's because, once the payments were made, the Home didn't retain the supporting invoices or statements for those purchases. Although storage space may be limited at that facility, retaining supporting documents for some reasonable period of time would help demonstrate the Home's accountability for those moneys. Further, the State's Records Management Manual calls for retention of purchasing records for at least 3 fiscal years.

Recommendation page 5

Procedures generally were appropriate, with some exceptions. The Soldiers' Home didn't always do bank reconciliations on a timely basis. In addition, those reconciliations sometimes weren't done or reviewed by someone other than the fund custodian. Finally, the Soldiers' Home didn't always file required financial reports with the Division of Accounts and Reports on a timely basis.

Recommendation page 7

This audit was conducted by Randy Tongier, Audit Manager. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

Soldiers' and Veterans' Homes

The Legislative Division of Post Audit has conducted compliance and control audit work at the Soldiers' and Veterans' Homes. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on the Homes' collection and deposit of fees paid by their residents, and on the Homes' administration of their locally-administered moneys, such as trust funds and benefit funds. The audit addresses the following specific questions:

- 1. Have the Soldiers' and Veterans' Homes collected and deposited the appropriate amounts of fees from their residents?**
- 2. Have the Soldiers' and Veterans' Homes properly handled their locally-administered moneys?**

To answer these questions, we reviewed applicable statutes, guidance from the Division of Accounts and Reports, and standard financial-management practices. We also interviewed appropriate staff members of the Homes, and reviewed the Homes' files and records. This audit work covers fiscal year 2002.

In conducting this audit, we followed all applicable government auditing standards.

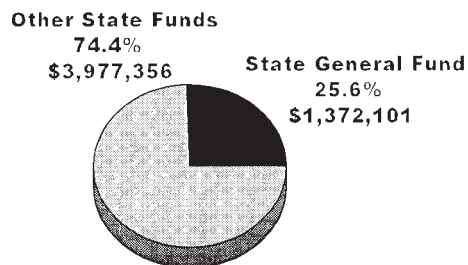
The Kansas Soldiers' Home AT A GLANCE

Authority: Created by K.S.A. 76-1901.

Staffing: The Home has 146.8 full-time equivalent positions.

Budget: The Board's funding comes from fees paid by residents, per diem payments from the federal Department of Veterans' Affairs, and from General Fund appropriations. For the most recent year, the Home took in and spent about \$5.3 million as shown below.

FY 2001 Funding Sources



FY 2001 Expenditures

Type	Amount	% of Total
Salaries/Wages	\$3,603,133	67%
Contractual Services	782,935	15%
Commodities	612,521	11%
Capital Outlay	345,331	6%
Other	5,537	1%

Total Funding: \$5,349,457

Total Expenses:

\$5,349,457

100%

Source: Governor's Budget Report, Fiscal Year 2003

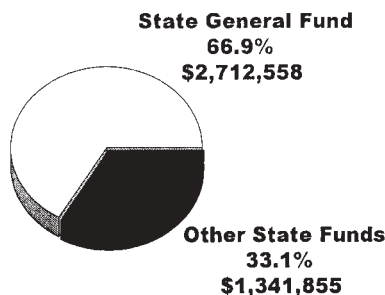
The Kansas Veterans' Home AT A GLANCE

Authority: Created by K.S.A. 76-1951.

Staffing: The Home has 138.0 full-time equivalent positions.

Budget: The Board's funding comes from fees paid by residents, per diem payments from the federal Department of Veterans' Affairs, and from General Fund appropriations. For the most recent year, the Home took in and spent about \$4.1 million as shown below.

FY 2001 Funding Sources



FY 2001 Expenditures

Type	Amount	% of Total
Salaries/Wages	\$2,941,412	72%
Contractual Services	607,185	14%
Commodities	266,024	7%
Capital Outlay	236,244	6%
Other	3,548	1%

Total Funding: \$4,054,413

Total Expenses:

\$4,054,413

100%

Source: Governor's Budget Report, Fiscal Year 2003

Question 1: Have the Soldiers' and Veterans' Homes Collected and Deposited The Appropriate Amounts of Fees From Their Residents?

The Soldiers' and Veterans' Homes collected and deposited the appropriate amounts of fees from their residents. The basis for this finding is summarized below.

The Soldiers' and Veterans' Homes Generally Have Established Adequate Financial-Management Practices To Ensure That They Collect and Deposit The Appropriate Amounts of Fees From Their Residents

The Homes charge and collect monthly fees from residents. The amount of the fees primarily depends on 2 key factors—the type of care provided, which ranges from independent living (at the Soldiers' Home) to skilled nursing care, and the financial resources the resident has. The Homes have established maximum monthly fees for each type of care, which residents are to pay unless their available financial resources are less than that maximum. In determining available financial resources, the Homes reduce the total resources of the residents by allowances for such things as support of a spouse, insurance premiums, and personal spending money.

The Homes are responsible for developing and implementing procedures to ensure that they collect and deposit the appropriate amounts of resident fees. Basic procedures that would help accomplish this goal include having a good way to do the following:

- Identify basic monthly fees for different type of care, such as adopting a fee schedule
- Identify the financial resources of the residents, such as requesting financial information at admission and periodically updating that information
- Properly applying the appropriate allowances to the residents' total financial resources to determine resources available for resident fees
- Determining and billing residents for the appropriate amounts due
- Collecting the amounts due, including following up on unpaid balances
- Keeping complete and accurate records of charges, payments, and balances

- Promptly depositing amounts collected and making appropriate transfers to the State Treasury

To identify and evaluate the procedures used by each Home, we interviewed appropriate facility officials, reviewed applicable accounting records and files, and tested a sample of charges and payments received. Both facilities had appropriate practices in place. During fiscal year 2002, resident fees collected amounted to \$1.8 million at the Soldiers' Home and \$2.1 million at the Veterans' Home.

Question 2: Have the Soldiers' and Veterans' Homes Properly Handled Their Locally-Administered Moneys?

The Veterans' Home has handled its locally-administered moneys properly. However, at the Soldiers' Home, we found weaknesses in several areas. Officials haven't maintained supporting documentation for purchases from Patient Trust Fund accounts. In addition, for some funds the Soldiers' Home didn't complete bank reconciliations on a timely basis, have those bank reconciliations done or reviewed by someone other than the fund custodians, or file required financial reports required by the Division of Accounts and Reports on a timely basis.

The Soldiers' and Veterans' Homes Generally Handled Their Locally-Administered Moneys Appropriately And in Accordance with Applicable Requirements, But Some Improvements Are Needed in Procedures

The Soldiers' and Veterans' Homes are responsible for several different kinds of locally-administered moneys. A brief description of the funds covered by this audit follows:

- Trust Fund—Moneys held by the Homes for individual residents. These moneys may be used by the residents to pay bills, for shopping, and for other personal uses.
- Benefit Fund—Moneys used to pay the cost of group activities or purchases for the residents' entertainment or welfare.
- Canteen Fund—A canteen at the Veterans' Home sells food items to residents. The canteen is operated by an independent contractor who pays the Home a percentage of canteen receipts.
- Imprest Fund—Moneys held locally and used for items that need immediate payment and can't wait for processing of a State warrant. At the Soldiers' Home, a portion of the Imprest Fund is used as a change fund.

Payments from locally-administered moneys were for appropriate purposes, except that we couldn't be sure about certain Trust Fund expenditures at the Soldiers' Home. State law and guidance from the Division of Accounts and Reports specify the allowable uses of moneys from each of the locally-administered funds. To determine if the facilities used the moneys in their locally-administered funds appropriately, we reviewed samples of expenditure transactions at each Home. In most cases, we determined that the expenditures were appropriate.

For certain Trust Fund expenditures at the Soldiers' Home (payment of bills for residents), we couldn't be sure that the expenditures were appropriate. That's because the Home didn't keep the supporting documentation for those expenditures, so we couldn't review that documentation during our field work. The Home's procedures call for the Fund Custodian to prepare a check for certain expenditures, such as paying a bill for a resident, and sending that check and the applicable bill or invoice to the Business Manager for review and signature. However, some time after the check is signed and sent out, the supporting documentation is discarded. According to the Fund's Custodian, that's done because storage space for documents is limited at the facility.

Although storage space may be limited, it seems reasonable that the Home would want to retain supporting documents for Trust Fund expenditures for some extended period of time to be able to demonstrate its own accountability for and proper use of those moneys. In addition, the State's Records Management Manual (prepared by the State Historical Society) calls for retention of purchasing records for at least 3 fiscal years.

Recommendation

To be able to demonstrate its accountability for and proper use of Trust Fund moneys, and to adhere to the State's record retention policies, the Soldiers' Home should retain supporting documentation for Trust Fund expenditures for at least 3 fiscal years.

Procedures for locally-administered funds generally were appropriate, but some strengthening is needed. The Homes are responsible for developing and implementing procedures to ensure that locally-administered funds are properly handled. State law and guidance from the Division of Accounts and reports also specify certain procedures to be used by State agencies for their locally-administered funds. Basic procedures to help ensure that moneys are properly handled include having a good way to do the following:

- Keep moneys in the funds secure, such as by keeping most moneys in a local bank account and any cash on hand in a locked drawer or safe
- Make sure that fund receipts are properly deposited
- Make sure that disbursements from the funds are authorized and approved, for example by requiring an independent supervisory review of supporting invoices before the checks are signed
- Record and report financial activity in the funds, including doing monthly bank reconciliations on a timely basis

Practices required by State law or the Division of Accounts and Reports include the following:

- Assigning a custodian for each fund
- Handling interest earned on the bank accounts in a specified manner

To identify and evaluate the procedures used by each Home, we interviewed appropriate facility officials, examined accounting records, reviewed bank reconciliations and financial reports, and tested samples of receipt and expenditure transactions. In general, the facilities had appropriate and required practices in place. The exceptions we noted are summarized below:

- *Monthly bank reconciliations weren't always done on a timely basis at the Soldiers' Home.* In general, bank reconciliations should be done for each month and completed within 2 weeks of the end of the period reconciled. At the Soldiers' Home, imprest fund bank reconciliations for fiscal year 2002 all were completed at the end of August 2002, some more than a year after the period reconciled. Timely reconciliations allow for identification of errors or inappropriate transactions soon enough to be more easily corrected, and help ensure accurate cash records on an ongoing basis. Although, the late reconciliations didn't find any errors, they would have been more difficult to deal with had there been any.
- *At the Soldiers' Home, some bank reconciliations weren't done or reviewed by someone other than the fund custodian.* Having the bank reconciliation done or independently reviewed by

someone other than the custodian can help identify and correct inappropriate transactions. The practice serves both as a deterrent and as a check for inappropriate payments.

- *The Soldiers' Home didn't always file required financial reports with the Division of Accounts and Reports on a timely basis.* The Division of Accounts and Reports requires State agencies to provide periodic reports on their locally-administered funds. This reporting requirement helps ensure that State agencies periodically summarize and review activity in their locally-administered funds, and provides an oversight tool for the Division of Accounts and Reports in this area. The Division calls for reconciliation reports on imprest funds at least monthly. According to Home officials, the Soldiers' Home didn't file any such reports during fiscal year 2002. The Division requires annual financial reports on benefit funds by July 25. The Soldiers' Home didn't file its fiscal year 2002 benefit fund report until late September 2002, about 2 months late.

Recommendation

To reduce the risk of inappropriate handling and to comply with applicable requirements, the Soldiers' Home should do the following:

- a. do monthly bank reconciliations on a timely basis
- b. have the bank reconciliations done by or reviewed by someone other than the fund custodians
- c. file required financial reports with the Division of Accounts and Reports on a timely basis

APPENDIX A

Agency Response

On October 24, 2002, we provided copies of the draft audit report to the Soldiers' and Veteran's Homes. Their responses are included as this Appendix.



**KANSAS COMMISSION ON VETERANS' AFFAIRS
KANSAS SOLDIERS' HOME**



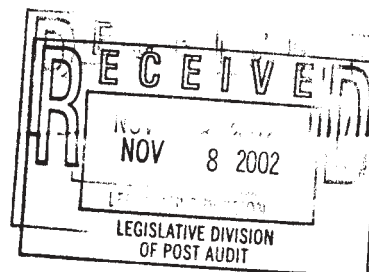
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Fort Dodge, KS 67843

Steve Goodman, Superintendent

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(620) 225-6331 Fax

November 5, 2002

Barbara J. Hinton, Legislative Post Auditor
Legislative Division of Post Audit
Mercantile Bank Tower
800 Southwest Jackson Street, Suite 1200
Topeka, Kansas 66612-2212



Dear Ms. Hinton:

Kansas Soldiers' Home appreciates the work that the Legislative Division of Post Audit has undertaken in reviewing our fee receipts and locally administered funds' processes. We have considered the recommendations for the Soldiers' Home with respect to our locally administered funds, and have made the following adjustments to our system in order to improve the controls in place:

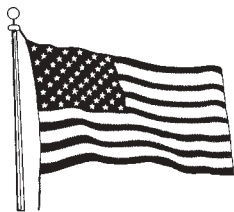
1. Supporting documentation for Trust Fund purchases will now be retained for 5 fiscal years. If necessary we will construct suitable storage areas.
2. Bank reconciliations for the Imprest Fund have been re-assigned to achieve more timely completion. Bank reconciliations for the Benefit Fund and the Trust Fund have been re-assigned to a staff member other than the Custodian of the funds.
3. The Imprest Fund Custodian will file the Monthly Imprest Fund Reconciliation by the 15th of the month following.
4. The annual report of the Benefit Fund will be filed by July 25 in the future.

Thanks again for your assistance in improving our systems.

Sincerely,


Steve Goodman
Superintendent

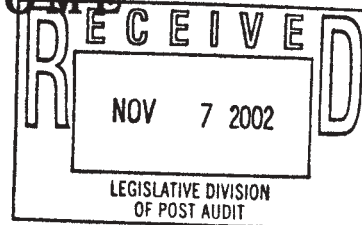
We invite you to visit us at www.kcva.org for more information



KANSAS COMMISSION ON VETERANS' AFFAIRS

KANSAS VETERANS' HOME

WINFIELD, KS



06 November 2002

Barbara J. Hinton
Legislative Division of Post Audit
Mercantile Bank Tower
800 Southwest Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Dear Barbara,

The Kansas Veterans' Home is writing to you in response to our Legislative Post Audit. The Kansas Veterans' Home does not wish to file an appendix to this report, but would like to have a few changes made to the Audit Report.

The proposed changes are located on page 2 of the Draft of the Audit Report. The Kansas Veterans' Home would like the "At A Glance" graph section to state the following changes:

1. Staffing: The Home has 138.0 full-time equivalent positions. Changed from...Staffing: The Home has 356.0 full-time equivalent positions.
2. FY 2001 State Funding Sources. Changed from...FY 2001 Funding Sources.

If you have questions on the proposed changes, please call me at 620-221-9479 ext. 208.

Thank you,

Christina Pingry
Kansas Veterans' Home
Business Manager

CC: Jim Hays, KVH Superintendent
Gene "Stoney" Wages, KCVA Executive Director

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JAMES M. HAYS III, SUPERINTENDENT